

Volume No. 1—Policies and Procedures	TOPIC NO	30305
Function No. 30000—Fixed Asset Accounting	TOPIC	Capitalized or Controlled Assets
Section No. 30300—Asset Categorization	DATE	June 2004

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Overview

Introduction

The purpose of this topic is to provide clear and uniform guidance for determining the proper classification of an asset. Guidance on fixed assets owned or controlled by State agencies that can be excluded from capitalization requirements are included in this topic in PROCEDURES Subtopic "Exclusions."

The policies and procedures discussed in this topic are the minimum needed, in conjunction with the suggested procedures of CAPP Topic 30505, *Physical Inventory*, to assume effective control over the Commonwealth's fixed assets.

Policy

Capitalized Assets

The asset has an expected useful life of greater than one year and the asset individually has a value or cost of \$5,000 or more at the date of acquisition. See CAPP Topic 30105, *Introduction*.

Agencies *wishing* to capitalize assets with a value less than \$5,000 due to programmatic requirements or other justifiable reasons should request an exception to the \$5,000 capitalization limit in writing from the Department of Accounts. The request for an exception should state the justification for the exception.

All tangible property meeting the following criteria is deemed capitalizable and must be included by all central users on FAACS. It should be disclosed in the financial statements of the agency and the Comprehensive Annual Financial Report (CAFR) of the Commonwealth.

Controlled Assets

Tangible property that has an expected life of greater than one year and a value or cost less than \$5,000 at the date of acquisition may be considered controllable and may be entered in FAACS by all central users at the discretion of the agency to provide accountability and to help safeguard the asset.

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Policy, Continued

Controlled Assets continued

The value of assets costing less than \$5,000 is not included in the CAFR of the Commonwealth. Fixed assets generally are subject to control by the creation and maintenance of a record of the asset on a system, the assignment of responsibility for stewardship, and a periodic inventory of fixed assets.

Agencies that can demonstrate that they have an acceptable means for controlling assets valued at less than the capitalization limit and that do not wish to use FAACS for controlling assets may use an alternative system of controlling lower valued assets.

Proper stewardship must be maintained over all agency fixed assets, including those valued at less than \$5,000. The agency has the discretion to develop its own policy regarding controlling or tracking assets valued at less than \$5,000. The choice not to control or track certain classes of fixed assets on FAACS, an agency-based automated system or PC application in no way eliminates the stewardship responsibility of the agency regarding these assets.

Agencies have the following options:

- Agencies may discontinue controlling or tracking assets valued at less than \$5,000 on FAACS or the agency-based system.
- Agencies may continue to use FAACS or their agency-based systems to control some assets valued at less than \$5,000.
- Agencies may use a PC application that is not specifically designed as a fixed asset system, such as EXCEL or ACCESS, to control or track some or all lesser valued assets.

DOA recommends, but does not require agencies to control or track certain classes of higher valued noncapitalized, easily transportable assets, particularly those frequently used in the home such as personal computers, laptops, palm pilots or other electronic equipment. Such assets may be tracked either on FAACS, an agency-based fixed asset system or a PC application. See CAPP Topic 30105, *Introduction*.

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Policy, Continued

Fixed Assets Purchased with Federal Funds

Assets acquired with federal funds are subject to the policies established above for capitalized and controlled assets except for those agencies receiving Medicaid and/or Medicare funds, who must request an exception to the \$5,000 criteria. The institutions coming under the Department of Mental Health, Mental Retardation and Substance Abuse Services, for example, have retained a capitalization limit of \$1500 due to federal requirements.

Excludable Assets

Agencies naming assets that are obviously valuable but for which it is impractical to determine a dollar value should contact the DOA FAACS Section for guidance.

Software Purchased or Developed for Internal Use

Agencies and institutions should capitalize software that is purchased or developed for internal uses that meet the FAACS capitalization criteria of \$5,000. Generally, each purchase should be considered separately when making the capitalization decision. However, it is not always easy to determine when to separate and when to combine. Consideration of the context of the acquisition is also recommended. For example, when software is purchased for a number of sites, it is not necessary to divide the total cost by the number of sites when making the calculation. Nor is it necessary to create a separate record for each in the event that a calculation dictates capitalization.

Generally, vendors sell a license to use software. They don't sell the software in a conventional sense. Software packages, such as Microsoft Windows, Excel or Word are licensed to the user. The user can't modify them or sell them to someone else at a later date. Licensed software may carry a periodic maintenance fee. These and products similarly categorized should not be capitalized.

State agencies often acquire software systems from a vendor that may be customized or developed for their internal use. *While the licensing agreement and fee itself would not generally be capitalizable, any significant costs incurred to customize the software to meet the needs of agencies of the Commonwealth should be capitalized.* Certain acquisition costs of systems that *have been customized as indicated below are subject* to capitalization.

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Software Purchased or Developed for Internal Use continued

Software that is totally developed internally would clearly be owned by the agency. Certain costs incurred in the internal development of software would be capitalized (see below). The only means of attributing a value to internally developed software would be to accumulate the hourly pay and benefits of the employees who develop it.

The standard for capitalizing the costs of software developed or obtained for internal use is the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Under this standard, software projects are divided into three stages; the preliminary project stage, the application development stage and the post implementation operation stage. Only costs that are associated with the application development stage are to be capitalized. Further clarification follows.

Preliminary Project Stage - Costs incurred during this stage are not capitalized. These costs include the following activities:

- conceptual formulation of alternatives
- evaluation of alternatives
- determination of existence of needed technology, and
- final selection of alternatives.

Application Development Stage – Costs incurred during this stage involve both internal and external costs incurred to develop the software and are capitalized. These costs include the following activities:

- design of chosen path, including software configuration and software interfaces
- coding
- installation to hardware, and
- testing, including parallel processing phase.

External capitalized costs include external direct costs of materials and services consumed in developing or obtaining software, such as fees paid to third parties for services provided to develop the software during the application development stage, and costs incurred to obtain software from third parties.

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Software Purchased or Developed for Internal Use continued

Internal capitalized costs include payroll and payroll related (benefits) costs of employees who are directly associated with and who devote time to the internal use software project. Also, travel expenses incurred by employees in their duties directly associated with developing the software are capitalized. However, general and administrative costs and overhead costs should not be capitalized.

Post-Implementation Operation Stage – Costs incurred during this stage are not capitalized. These costs include:

- training, and
- application maintenance.

The scope of SOP 98-1 does not include costs of reengineering activities associated with software systems. Costs for Y2K modifications should not be capitalized.

The SOP became effective for nongovernmental entities for fiscal years beginning after December 15, 1998. For governmental type agencies covered under this CAPP topic, capitalization of internal use software becomes effective with the fiscal year beginning July 1, 2003. Costs incurred prior to the effective date, whether capitalized or not should not be adjusted to the amounts that would have been capitalized had this SOP been in effect when these costs were incurred.

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Procedures

Capitalized and Controlled Property

Both capitalizable and controllable property are subject to all requirements regarding security, maintenance, and utilization. Whereas information regarding capitalizable assets is entered for both control and required financial reporting, information regarding controllable assets is entered primarily for property management purposes. These assets are flagged with a control indicator in order to distinguish them from capitalized assets. Controllable assets are excluded from accounting calculations, depreciation, and certain financial reports produced for financial disclosure purposes.

Assets Less Than \$5,000

Since each asset entered into FAACS involves both time and expense to enter and control the asset, it is suggested that agencies use FAACS for controlling assets less than **\$5,000** only after consideration has been given to the cost incurred for the benefit derived. Alternative methods of controlling noncapitalized assets, such as use of PC application, inventory store card, supply procedures, etc., should also be considered. Assets not controlled through FAACS are still subject to the basic accountability and stewardship policies of the Commonwealth. There are differences in managing accounting and reporting for fixed assets to meet Federal government requirements. FAACS supports both State and Federal reporting requirements. Refer to CAPP Topic 31105, *Federal Requirements*.

Fixed Assets Purchased with Federal Funds

Agency management is responsible for ensuring that the depreciation for capitalized fixed assets purchased with federal grant funds is not charged to the Federal Government in the indirect cost recovery plan. Therefore, an ownership status of "G" (federally financed) and a funding source code of 20, Federal Grant, should be used.

Since FAACS produces a Straight-Line Calculation Audit Report that breaks out the total depreciation for assets coded with an Ownership Status of "G," agencies must exclude this amount from indirect cost recovery calculations. In essence, the asset is owned by the grantee or subgrantee agency, and the use of the "G" ownership code is merely to facilitate capturing excludable depreciation.

Since controlled assets purchased with federal grant funds are owned by the grantee or subgrantee agency and not subject to depreciation, no special treatment is accorded. See CAPP Topic 31105, *Federal Requirements*, for further details.

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Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- Fixed assets purchased with federal grant funds are recorded appropriately in FAACS.
- Controls are in place to exclude the depreciation of capitalized fixed assets purchased with Federal grant funds from the indirect cost recovery plan.
- Assets are properly classified for financial reporting purposes.
- Recordkeeping procedures exist that account for Excludable assets.
- Excludable assets are safeguarded against damage or theft.
- A periodic inventory is performed of Excludable assets.
- Assets are recorded in a timely manner.
- Assets are adequately safeguarded and controlled.

Records Retention

General

Fiscal records related to managing fixed assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

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DOA Contact

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Subject Cross References

References CAPP Topic No. 30105—*Introduction*
 CAPP Topic No. 30505—*Physical Inventory*
 CAPP Topic No. 31105—*Federal Requirements*
 CAPP Topic No. 70325—*Data Entry*
